Tax Supported
New Issue

San Antonio Starbright Industrial Development Corp., Texas

Rating

Contract Revenue Bonds,
Series 2003 (Taxable) .... AA

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New Issue Details

$24,800,000 Contract Revenue Bonds, Series 2003 (Taxable), are scheduled to sell the week of June 9 via negotiation to a syndicate managed by Siebert Brandford Shank. Dated June 1, 2003, the bonds are scheduled to mature Aug. 1, 2007–2033 and will be subject to optional redemption prior to maturity at par plus accrued interest.

Security: The bonds are special obligations of the San Antonio Starbright Industrial Development Corp. payable from pledged contract payments from the city related to certain revenues received from the electric and gas systems, pledged funds, and any and all property pledged as additional security.

Purpose: Bond proceeds will finance the acquisition and conveyance to Toyota Motor Manufacturing North America, Inc. of an approximately 2,643-acre tract of land for a project site and will reimburse Toyota for site preparation costs and the construction of a training facility.

■ Outlook

The ‘AA’ rating reflects the strength of the revenue stream from which bond repayments will be made, the extremely low debt service as a ratio of pledged revenues, and the solid contract and legal covenants of the transaction. The primary general fund revenue stream for the City of San Antonio is the payment it receives from its electric and gas utility, City Public Service (CPS). This is pledged revenue for repayment of the contract revenue bonds, and the lowest payment the city has received from CPS in the past five years was $138.5 million. Projected maximum annual debt service (MADS) for this issue is approximately $1.8 million. Furthermore, the obligation of the city to make payments to the trustee from these revenues is unconditional, regardless of the status of the project or whether or not any party involved in the project fails to perform. The structure of the transaction anticipates incremental governmental revenues associated with the operational Toyota Motor Manufacturing North America, Inc. (Toyota) project — particularly the CPS payment to the city — being sufficient to pay debt service. Due to the sound legal provisions and contracts, low debt service, and the significant pledged revenue source, the Rating Outlook on this credit is Stable.

■ Rating Considerations

As announced in February 2003, Toyota has selected San Antonio as the site for its next manufacturing plant, where it will produce its Tundra truck, scheduled to begin in the summer of 2006. As part of the project development agreement between Toyota, the city, the state of Texas, Bexar County, and various other public and private entities, the city is obligated to acquire and convey the project site and reimburse Toyota for site preparation costs in an amount not to exceed $10 million and for the construction of a training facility in an amount not to exceed $3 million. Land acquisition costs are estimated at $15.4 million. The city’s project obligations will be financed through bond proceeds from this issue, as well as grants from the state and federal governments.

In accordance with the economic development contract between the city and the San Antonio Starbright Industrial Development Corp., the city is unconditionally obligated to pay debt service, fund the reserve requirement, and pay all other debt service obligation expenses using the revenues it receives from CPS. The payments are not subject to reduction, and the corporation will covenant to maintain the contract in full force as long as bonds are outstanding. The corporation is obligated to issue bonds and finance the cost of the city project, as well as reimburse Toyota. The nonprofit corporation created by the city has no assets other than its right to receive pledged contract payments, which will be assigned to the trustee for the benefit of bondholders.

The trust estate consists of pledged revenues (including the corporation's right to pledged contract payments), pledged funds (generally the debt service and debt service reserve funds), and any and all property pledged as additional security. The land conveyed to Toyota will not be mortgaged. Funds flow in priority order to the debt service fund in approximately equal monthly installments, which will provide for the accumulation required to pay debt service on all bonds (including expenses), as well as to the debt service reserve fund if a deficiency in the required amount exists. The minimum debt service reserve requirement is average annual debt service (AADS), with a maximum requirement equal to no more than MADS.

Additional obligations, in the form of unlimited completion bonds, are allowed if the economic development contract is adjusted to provide sufficient payments for debt service and the reserve requirement, the mayor certifies that the city is not in default on any covenant or obligation, and the CPS board certifies that the utility is not in default on any covenant or obligation under an ordinance authorizing utility revenue bonds.

Payments to the city from CPS are net revenues of the utility system in an amount not to exceed 14% of gross revenues of the utility system, less the value of gas and electric services used for municipal purposes, and are subject to the flow of funds and more specific terms of city ordinances authorizing bonds payable by the utility system. Under the flow of funds for CPS utility revenue bonds, distribution of the 14% of gross revenues is the fifth priority, preceded by operations and maintenance expenses, payment of parity bonds and reserves, payment of inferior lien obligations, and a distribution to the repair and replacement fund, in priority order. Audited fiscal 2002 city revenues from CPS payments totaled $171.2 million, and the budgeted amount for fiscal 2003 is $169 million. Interest on the contract revenue bonds will be capitalized for 30 months. Fitch rates both the general obligation credit of the city of San Antonio and the system revenue bonds of CPS 'AA+'.

■ Strengths

- Strong contractual and legal covenants.
- Significance of the revenue stream committed to repayment.
- Low annual debt service costs and abundant coverage of debt service by pledged revenues.
- Importance of the manufacturing project to the local economy.

■ Risks

- Minimal. However, highly rated major parties to the transaction (CPS and the city of San Antonio) have their individual risk elements.

■ Toyota Project

Toyota plans capital investment of at least $400 million for the first phase of the manufacturing facility, with its total planned investment at the site amounting to $800 million. Construction is scheduled to commence this summer, with production anticipated to begin in summer 2006. The model produced during the first phase will be Toyota's Tundra truck, with an estimated 150,000 units expected to be completed annually at the facility when it is fully operational, beginning in 2009. During construction, an estimated 2,100 jobs will be created.

The economic impact of this facility is significant, not only from direct jobs created but also from peripheral employment. An estimated 1,800–2,000 full-time employees will work at the facility, with compensation ranging from near $50,000 for hourly staff to up to $70,000 for experienced team leaders. The annual direct payroll at full operation in 2009 will be from $90 million–$100 million. Potential exists for an estimated 5,300 associated jobs, primarily through the operations of suppliers to the Toyota plant. It is estimated that $2.5 billion will be purchased from suppliers to produce the 150,000 units manufactured annually in the San Antonio plant.

The new Toyota plant will provide a new economic sector for the local economy and serve to develop the south side of San Antonio, as well as diversify the broader economy. Other economic initiatives in this area of the city include the possible location of a $1 billion federal vaccine facility at Brooks City-Base (an Air Force base) and the ongoing public and private capital investment in new or renovated facilities at the KellyUSA industrial park.

■ Security Provisions

The bonds are special obligations of the corporation payable from the trust estate. The land to be conveyed to Toyota will not be mortgaged.

Trust Estate: This consists of pledged revenues, including the corporation's right, title, and interest in and to pledged contract payments from the city under the economic development contract; pledged funds, generally the debt service fund and the debt service reserve fund and any moneys deposited therein; and any and all property pledged with the trustee by the corporation as additional security.

Flow of Funds: Funds will flow, in priority order, monthly to the debt service fund in approximately equal installments, which will provide for the accumulation of the amount required to pay debt service on all bonds and obligations (including expenses); and to the debt service reserve fund, if it contains less than the required amount, in amounts that will result in the appropriate amount required to be on deposit.

Additional Obligations: The corporation will reserve the right to issue an unlimited amount of completion bonds, provided the economic development contract is adjusted to provide sufficient payments on the additional bonds, an increase in the debt service fund as required by the indenture, and payment of all expenses. Also required is a certification by the mayor stating that the city is not in default on any covenant or obligation under the contract, as well as a certificate authorized by the CPS board stating that the utility is not in default on any covenant or obligation under an ordinance authorizing utility revenue bonds or other obligations secured by utility revenues. The corporation is also authorized to incur obligations (credit agreements) related to the bonds.

Reserve Requirement: The minimum requirement is AADS, and the maximum requirement is MADS.

■ Starbright Development Agreement

The parties to the project development agreement include the city of San Antonio, the state of Texas, Toyota, Bexar County, CPS, San Antonio Water System (SAWS), and the Southwest Independent School District, as well as private entities. The city is obligated to acquire and convey 2,643 acres for the project site, reimburse Toyota for site preparation costs not to exceed $10 million, and reimburse Toyota for construction of a training facility in an amount not to exceed $3 million. A portion of the city's project obligations will be financed through the proceeds of this bond issue, with the remainder expected to be paid from state and federal government grants.

Further obligations of the city include providing rail access, water and sewer extensions, and gas and electric infrastructure to the site to be acquired, as well as designating the site as both an empowerment and foreign trade zone. Both SAWS and CPS have instituted "super user" rates; the plant is expected to fit this category. Also, the city is required to provide the appropriate zoning for the site and make representations about the environmental condition of the site.

■ Economic Development Contract

Under the terms of the contract, the city is obligated to pay the trustee on behalf of the corporation, from revenues it receives from the utility system, the following: sums required for debt service on all bonds issued under the indenture; all amounts required to establish, restore, and maintain the debt service reserve requirement; and all other debt service obligation expenses. The city's obligation to pay the corporation is unconditional, regardless of whether the project is complete, operable, or retired. Payments are not subject to reduction, whether offset or otherwise, and are not conditional upon performance or default by the corporation or whether or not Toyota or any other party to the Starbright agreement fails to perform. In the event of a default in payment of any due sum that continues 10 days after the trustee gives notice, the trustee is authorized to direct CPS to make payments directly to the trustee.

The corporation is obligated to issue bonds, finance the cost of the project, and reimburse Toyota. The corporation covenants to maintain the contract in full force as long as bonds are outstanding and will use reasonable diligence to require the city to perform and discharge duties imposed by the contract. At the direction of the city, the corporation will hold any portion of the overall tract site not required to be conveyed to Toyota.

■ Finances

The source of city payments to the corporation is the utility system net revenues that are payable to the city in an amount not to exceed 14% of gross revenues of the utility system, less the value of gas and electric services used for municipal purposes. This payment is subject to the flow of funds and more specific terms of ordinances authorizing bonds payable by the utility system. For CPS utility revenue bonds, funds flow, in priority order, to operations and maintenance expenses, payment of parity bonds and reserves, payment of inferior lien obligations, the repair and replacement account in an amount equal to 6% of gross revenues, and as cash payments and benefits to the city in an amount not to exceed 14% of gross revenues. Any remaining revenues are deposited in the repair and replacement account.

CPS payments to the city of San Antonio represented 28.1% of the total general fund revenues budgeted in fiscal 2002. The expected increase in CPS payments to the city due to the rise in gross utility revenues attributable to the operation of the Toyota plant is expected to nearly cover the debt service payment associated with the Starbright development. Additionally, Toyota has agreed to let the manufacturing site be annexed into the city limits, being added to the tax rolls in 2007 without abatement.

MADS for the Starbright development is anticipated to be $1.8 million. Projected CPS revenues to the city for fiscal 2003 of $169 million provide debt service coverage of 94 times. The corporation bonds will have a 30-year maturity and capitalized interest for 30 years. Principal repayment is scheduled to begin in fiscal 2007, coinciding with the opening of phase one of the manufacturing facility.

San Antonio (City of) TX

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Moody's Rating

Issue		Rating
Taxable Contract Revenue Bonds, Series 2003		Aa2
Sale Amount	$23,000,000	
Expected Sale Date	03/25/03	
Rating Description	Revenue	

Moody's Assigns Aa2 Rating to the City of San Antonio Starbright Development Corporation Taxable Contract Revenue Bonds, Series 2003

Initial Rating Affects $23 Million in Debt

Opinion

Moody's Investors Service has assigned an initial Aa2 rating to the City of San Antonio's Starbright Development Corporation $23,000,0000 Taxable Contract Revenue Bonds, Series 2003. The bonds will be used for site acquisition and preparation for a new Toyota manufacturing plant. The high quality rating assignment is based on the strength of the pledged revenues securing the bonds and the credit quality of the City of San Antonio. The rating also recognizes the high credit quality of the City Public Service electric and gas utility, the source of the pledged revenues.

The City of San Antonio has worked with several other participants including the State of Texas and Bexar County to attract Toyota to the area. As a result of these efforts, Toyota will locate its 6th manufacturing plant in North America in the San Antonio area. In addition to funds from the current bond issue, the project will get an EDA grant, State funding, and a contribution from Toyota for site acquisition ($15 million), site improvements ($10 million), and a training facility ($3 million). The City of San Antonio created the Starbright Industrial Development Corporation to act on behalf of the City to acquire the land site and transfer it to Toyota. The site development is currently located outside of the City limits but within its extra-territorial jurisdiction (ETJ), and the City plans to annex the site in three years.

The new Toyota plant, on which construction is expected to begin this summer and which will begin production by the summer of 2006, will build Tundra trucks. Toyota is expected to bring anywhere from 1,800 to 2,000 jobs to the area, and the new plant will carry a value estimated at $400 million for the first phase and $800 million with the second phase. Additional development is also expected to occur as suppliers locate to the area to serve the plant.

Security on the current bond issue is provided by a pledge of the transfer revenue received by the City from City Public Service (CPS) (revenue bonds rated Aa1). CPS provides electric and gas services to customers in the San Antonio area. On an annual basis, CPS transfers to the City of San Antonio an amount not to exceed 14% of the gross revenues of the Utility Systems less the value of gas and electric services of the Systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system. The transfer from CPS to the General Fund has been a relatively stable revenue source over the last several years. The amount has averaged 4% growth annually over the last five years and totaled $165.7 million in fiscal 2002. Assuming a level debt service payment for the current issue of approximately $1.4 million annually, the pledged revenues provide more than ample debt service coverage of 115 times. Although the debt service payments will initially decrease funding to the General Fund, revenues from the Toyota plant to CPS are expected to eventually increase the transfer amount enough to offset the debt service requirements.

While CPS has not covenanted to continue to make the transfers and it is not obligated under any statute to do so, Moody's recognizes that due to the importance of the transfer as a source of city revenues--the transfer contributes approximately 30% to General Fund operating revenues--it will remain in place and coverage levels will remain high. The circumstances surrounding this project are unique and therefore we do not believe that the city will issue any significant amount of parity debt. Our expectation that coverage will not be seriously diluted by the addition of parity debt is a factor in the rating. The CPS transfer is subordinate to the system's revenue bonds. A positive credit factor is the establishment of a trustee so that payments on debt service are directly paid from CPS to the trustee.

Moody's maintains a high quality rating of Aa2 on the City of San Antonio's general obligation bonds. The San Antonio metropolitan area is experiencing an economic resurgence. Continued moderate growth on the City of San Antonio's $40 billion taxbase, which has averaged 6.8% growth annually for the last five years, is expected to continue for the foreseeable future. In the midst of an economic resurgence, ongoing management efforts are expected to lead to diversification into the industrial, transportation, and warehousing sectors to combine with the current growth in the technology and medical care sectors. While the tourism, commercial, and military sectors remain important to the economy, diversification is expected to lessen the reliance on these traditional economic drivers.

KEY STATISTICS:

City of San Antonio: rated Aa2

City Public Service: rated Aa1

Pledged revenues in 2002: $165.7 million

Estimated annual debt service: $1.4 million

Debt service coverage: 115 times

CPS transfer as % of General Fund operating revenues: 30%

STANDARD & POOR'S PUBLIC FINANCE

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City of San Antonio, Texas, Starbright Industrial Development Corporation, Contract Revenue Bonds, Series 2003 Taxable

Starbright Porject

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Credit Profile
$23.5 mil Contract Rev Bnds (San Antonio) (Starbright Proj) Series 2003 due 04/01/2032
AA
Sale date: 25-MAR-2003

OUTLOOK:
STABLE

Rationale

Starbright Industrial Development Corp. (SIDC), Texas' $23.5 million contract revenue bonds series 2003 are rated 'AA' and are secured by San Antonio's ('AA+' GO rating) portion of revenues it receives from City Public Service (CPS), also rated 'AA+'. The revenue transfer from CPS to the city is subject to the availability of excess CPS funds but the utility is required in its bond ordinance to transfer funds as long as there is CPS debt outstanding. The transfer of funds has occurred since 1963 and the city is reliant on these funds for operations.

The rating reflects:

- A pledge by the city of revenues it receives from CPS, which have historically been made in the maximum legal amount of 14% of CPS' gross revenues;
- The legal requirement for CPS to make transfers to the city as outlined in its bond ordinance and supplemental ordinances;
- The city's control of CPS' transfer requirement and rate structure as outlined in CPS' bond ordinances; and
- A debt service reserve surety bond in the amount of average annual debt service on the bonds.

The city formed SIDC as a nonprofit industrial development corporation to issue bonds for the land acquisition and other costs of the city associated with the construction of a new Toyota truck manufacturing facility to be located south of downtown San Antonio. The city is issuing this debt through SIDC as contract revenue bonds whose debt service will be paid solely from revenues the city pledges from funds it receives from CPS.

Under CPS' bond ordinances, CPS is legally required to make monthly transfers to the city from funds available after meeting its own debt service and funding its repair and replacement reserve fund. This legal requirement will be in effect as long as CPS has bonds outstanding. Current CPS debt extends out 34 years to maturity. The SIDC's series 2003 revenue bonds mature on April 1, 2032. The maximum amount CPS is required to transfer to the city is 14% of gross revenues less the city's costs for usage of gas and electric services from CPS.

Transfers from CPS to the city began in 1942. In 1960, the 14% maximum amount was instituted in its bond ordinances and was phased in so that, beginning in 1963 and each year since, monthly transfers have been made at this maximum level. The transfer is expected to continue at the maximum level given that, by CPS' bond ordinances, the percentage of gross revenues of CPS to be paid over to the city, within the 14% maximum amount, is determined by the governing body of the city. In addition, the San Antonio city council sets CPS' rate structure. The CPS transfer to the city has represented roughly 30% of total revenues for many years.

San Antonio won its bid for the Toyota plant in February 2003. Construction is scheduled to begin in the summer of 2003 with completion expected in 2006. The city's economy will benefit from various aspects of the project including a total of about $800 million in capital investment from Toyota. About 2,100 construction jobs are expected to be created. Upon completion, the plant will produce Toyota's Tundra trucks at the rate of 150,000 per year at full operation. Total manufacturing jobs expected to be created are about 2,000 with an additional 5,300 spin-off jobs in the area. A three-year limited purpose district will be created for the site with the expectation that the city will annex this land at the end of that period.

In addition to the city's land acquisition for the construction site, bond proceeds will also be used for 30 months of capitalized interest on the bonds. A debt service reserve surety bond for the average annual debt service on the bonds will be obtained as well.

Outlook

The stable outlook reflects the expectation that CPS' maximum transfer amount to the city of 14% of gross revenues will continue and that the city will take any necessary action to see that such transfer is maintained as legally allowed under CPS' bond ordinances.

Rating on San Antonio, Texas

The rating on San Antonio reflects the full faith and credit of the city and also reflects:

- Continued strong economy despite slowing tax base growth for fiscal 2003,
- Strong management with good, long-term planning,
- Historically good financial management and position despite a significant reduction in the general fund balance for fiscal 2002, and
- A moderately high debt burden with manageable capital needs.

Of some long-term concern is alleged improprieties by certain members of the city council. Though city management has indicated that the currently ongoing investigations relating to indictments are not affecting the operations of the city, Standard & Poor's is concerned that operations and public support could be negatively affected.

Located in Bexar County about 75 miles south of Austin, the San Antonio MSA population of 1.3 million makes it one of the 10 largest in the nation. Overall economic growth continues despite a slowing in the 2003 total assessed value (AV) growth to 3.1% from the 7% average of the previous five years. Total AV is now almost $41 billion. The strongest growth continues to be in the services and trade sectors. The medical and bio-medical industries now comprise the largest part of the city's economy contributing $8.1 billion to the area as a whole. Expansions continue at South Texas Medical Center, which is the city's largest employer, employing almost 26,000. Government, specifically the military, remains a large component of the economy with five military bases located in the city. Kelly Air Force Base (AFB) officially closed as a military installation in July 2001, but the city continues to work on its privatization efforts there, which have so far resulted in a slight net gain of jobs. The city also worked with Brooks AFB to create Brooks City-Base, which is a collaborative effort between the city and the U.S. Air Force established to retain jobs at Brooks by improving the effectiveness of the facility. Unemployment in San Antonio has risen to 5.6%, however, remains below both the state and national levels.

Financial performance suffered in fiscal 2002 with an unaudited, unreserved general fund balance of $53.5 million or 9.1% of expenditures. The reduction in the general fund balance is the result of nearly flat revenues due to the slowing tax base growth, coupled with reduced sales tax receipts and significantly increased expenditures, primarily for public safety. As a result, the unreserved general fund balance at fiscal year-end 2002 declined by $33.2 million. The city continues to exceed its goal of maintaining at least 5% of expenditures in the fund, and additional flexibility is provided with $23 million in reserves within the general fund that are dedicated only for potential revenue declines. These reserve funds did not decline during fiscal 2002. The city's 2003 budget process resulted in a budget shortfall of $42.4 million. In order to balance the budget, city management has implemented across-the-board departmental cuts that are primarily administrative. City management expects services provided by the city to be minimally affected. It further expects the total general fund balance for fiscal 2003 to be maintained at a level similar to the level it was at in 2002 given the adjustments made to balance the budget. The city's sales tax revenue for fiscal 2002 was below the projected 3.5% increase; however, it did exceed the 2001 level by 2.6%.

Overall net debt is moderate on a per capita basis at $2,394, but high as a percentage of market value at 7.3%. These figures are mitigated to some extent in that they include the city's overlapping debt, which is comprised substantially of school district debt where a large portion of debt service will be paid from the state's instructional facilities allotment program. The series 2003 bond issue represents refunding bonds only. Proceeds will be used to refund existing debt of the city for interest cost savings. With no remaining voted GO authorized debt, city management currently expects to go back to voters for authorization of about $115 million in November 2003.(for an extended analysis of the city's rating see the research update on San Antonio that was published on March 18, 2003, on RatingsDirect, Standard & Poor's Web-based credit analysis reference system).

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